



The case for Carbon Fee and Dividend

Executive Summary

- The scientific case for man-made climate change is settled and need no longer be debated.
- Fossil fuels enjoy competitive advantages over alternative energy sources for several reasons but primarily because their costs to society are not included in prices.
- If the costs of societal impacts were included in the price for fossil fuels, the free market would respond to develop energy alternatives without government financial assistance.
- **Carbon Fee and Dividend**, a policy of putting a gradually increasing fee on fossil fuels at their source, would level the playing field between fossil fuels and alternative energy.
- Returning 100% of proceeds from the fee on fossil fuels to households on a flat basis would provide the market incentives needed to spark a boom in alternative energy.
- A boom in alternative energy would quickly restore our economy to full health while simultaneously helping us to avoid the worst effects of climate change.
- Passage and implementation of the Save Our Climate Act should be seen as the most important legislative priority facing the current Congress.

Background

The story of man-made climate change has been known for 40 years. Twenty years ago, James Hansen testified about the scientific evidence for climate change before Congress. Since then, a disinformation campaign conducted by the fossil fuel industry, partisan bickering, and a lack of vision about how to maintain the American lifestyle without fossil fuels have stymied both domestic and international action.

Costs: Renewable energy vs. fossil fuels

The fundamental reason why non-fossil fuel based energy and fuels (i.e., renewable/alternative energy) have not captured more market share in the US is because they are more expensive watt-for-watt or mile-for-mile than fossil fuels. There are many reasons why renewable energy is more expensive than energy from fossil fuels:

- Renewables are a new industry requiring build out of expensive infrastructure
- Economies of scale do not apply to the limited quantities of renewable energy equipment being built
- Raw power generation capability of renewable energy systems cannot match fossil fuel based systems

- Subsidies to the fossil fuel industry are guaranteed and stable, whereas those to clean tech are uncertain and variable
- Prices for fossil fuels do not account for the costs their use imposes on society such as the [costs of human health problems caused by air pollution from the burning of coal](#); damage to land from coal mining and to miners from black lung disease; aquifer contamination and geological destabilization from hydraulic fracturing; and environmental degradation caused by global warming, ocean acidification, acid rain, and water pollution

Economic opportunities

If the price of fossil fuels reflected costs for mitigating their use we would see a boom in private investment in the alternative energy sector including residential and commercial energy conservation. For example, it's been estimated that the right incentives would stimulate 40% more private investment for conservation and alternative energy.

Even in the prevailing less-than-optimal economic conditions:

- A dollar invested in clean tech creates 3 times as many jobs as a dollar invested in fossil fuels
- Median wages in the clean economy are 13% higher than median U.S. wages
- The annual rate of growth for clean tech has been almost twice the rate of growth for other jobs

The foregoing supports an inescapable conclusion: If the US puts the right incentives in place, a boom in private investment will result in a reinvigorated economy, job growth, reduced threat from climate change, and numerous other benefits.

An incentive to stimulate a renewable energy boom

Designing the right incentives begins by removing the unfair cost advantage enjoyed by fossil fuels in the form of their free use of the atmosphere as a dumping ground for their waste products, principally carbon dioxide. The system of incentives must include protection of low income households from the regressive effects of resulting energy cost increases. The incentives must grow gradually over time to give fossil fuel companies, businesses, and households time to adjust and the alternative energy industry time to develop and grow the needed technologies.

Citizens Climate Lobby, an international nonpartisan nonprofit, has proposed a policy they call **Carbon Fee and Dividend** that meets these criteria. The policy has three key provisions:

- 1) It imposes a fee of \$15 per ton of potential CO₂ emissions on producers and importers of fossil fuels
- 2) It directs the IRS to distribute 100% of proceeds from the fee in equal amounts to taxpayers in the form of monthly dividend checks or automatic deposits
- 3) It mandates automatic increases in the fee of \$10 per ton of potential CO₂ emissions in the second year and every year thereafter

With the new fee in place, businesses and investors will react to the certainty of rising fossil fuel prices by rushing to make money in the new energy economy. They will invest billions of dollars per year in conservation, development of energy-efficient products, and alternative energy R&D. The race to save the earth from the worst effects of man-made climate change will have begun. The clean energy revolution will begin for real.

Political viability

Being revenue-neutral, deficit hawks should find this proposal acceptable because it will not increase the size of government. It leaves decision making about which clean energy technologies are best in the hands of the market, not the government.

Rep. Pete Stark (D-CA) has submitted a **Carbon Fee and Dividend** bill to the Ways and Means Committee in the House of Representatives. The bill is [HR 3242](#), the Save Our Climate Act. The bill has ten cosponsors. It would do the following:

- Impose a fee on fossil fuels of \$10 per ton of potential CO₂ emissions
- Increase the fee by \$10 a year until emissions reach 20% of 1990 levels, the level deemed safe by climate scientists
- Put the first \$10 of the fee towards deficit reduction every year; return all other proceeds (i.e., the increases from the second and subsequent years) to households on a flat basis

Rep. Stark's office estimates that this bill will generate \$480 billion in deficit reduction and return \$2.1 trillion in dividends to households over 10 years.

While this bill differs from the Citizens Climate Lobby proposal, CCL is nonetheless supporting it and urging citizens to write their legislators in support of it.

Conclusions

Carbon Fee and Dividend does not address how the American lifestyle can be maintained without fossil fuels. What it does address is how to stimulate the private sector to develop the conservation strategies, energy-efficient products, and alternative energy sources needed to maintain the American lifestyle without relying on fossil fuels. There shouldn't be any doubt about our ability to solve these problems given past accomplishments like the development of nuclear technology, putting a man on the moon, inventing the Internet, and producing innovations like the personal computer and the iPhone.

Under this proposal the expected dividends will not fully compensate high carbon footprint households to cover the price increases they will experience due to the imposition of the carbon fee. They will need to absorb the residual cost increases by using more of their disposable income, changing their lifestyles, or finding more energy efficient means to maintain their lifestyles – just the way markets are supposed to work. Low income households will be shielded from the rising costs of fossil fuels by the dividend checks the policy provides. Fossil fuel companies will need to transform themselves into renewable energy companies or eventually go out of business as increases in the fee make conservation and

alternative energies more and more attractive and fossil fuels capture smaller and smaller fractions of market share.

As U.S. Rep. Paul Ryan said in an address to the Economic Club of Chicago on May 16, 2011, regarding the trajectory of our nation's debt: "The answer is simple. We have to make responsible choices today, so that our children don't have to make painful choices tomorrow." The conclusion is the same for our climate, but with the climate we can choose in a way that benefits our economy now and far into the future.

For More Information

The Save Our Climate Act:

- [Introduction Statement](#)
- [Bill Text](#)
- [Fact Sheet](#)
- [Washington Post Editorial: The Threat of Carbon Emissions on the World's Oceans](#)

Citizens Climate Lobby Position Papers:

- [Cap and Trade Position Paper Economic Influence of a Carbon Tax](#)
- [Carbon Tax Position Paper](#)
- [Carbon Fee and Dividend FAQ](#)